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MEMORANDUM FOR:

Executive Assistant to the DDI

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The attached information is provided
in response to your recent request for
background information for Mr. Doswell's
address

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Chief
Soviet Economy Division
Office of Soviet Analysis

Date 2 March 1982

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QUESTIONS AND ANSWERS



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Questions from Mr. Doswell

1. Poland has a \$71,000,000 guaranteed loan with the U.S. What is the status of this?
- ✓ 2. What are the Soviet Union hard currency prospects?
- ✓ 3. What is the amount that the Soviets have in gold reserves?
- ✓ 4. What is the estimate on the proposed pipeline that the Soviets want to build to Europe in generating hard currency for them? Effects?
5. Technology Transfer Issue: What degree has technology transfer hurt us?

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Response to Question 1.

Status of Polish CCC Loan

The \$71 million loan guaranteed by the US government is the amount due to US banks in January which carried a US government guarantee. In recent years, the Commodity Credit Corporation guaranteed loans granted by banks to finance US agricultural exports to Poland. When Warsaw did not meet its \$71 million in payments to the banks in January the US government guarantees were invoked.

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Response to Question 2.

USSR: Hard Currency Shortage

Concern over the USSR's current and prospective international financial situation is growing. The primary reasons are larger-than-planned imports of grain, meat, and sugar as well as soft world oil prices. Other contributing factors, include reduced Japanese purchases of Soviet timber and chemical products and a drop in gold prices. The fall in gold prices--caused in part by a spurt in Soviet gold sales at the turn of the year--may have caused Moscow to withdraw from that market, at least for a while. The USSR traditionally has sold gold judiciously, to avoid spoiling the market.

The Soviets also are reluctant to request sizable new loans in the West. In light of the stalemate on Polish rescheduling, the USSR is particularly reluctant to ask for new syndicated credits.

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All of these factors, combined with traditional Soviet conservatism in financial matters, have led Moscow to put strict controls on imports other than grain, to try to defer payments wherever possible, and--in some instances--to try to sell minerals and timber at cut rate prices.

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Response to Question 3.

Million Troy Ounces

USSR: Gold Production and Reserves

	Production	Reserves		Production	Reserves
1965	5.33	29.61	1973	8.03	56.16
1966	5.69	33.01	1974	8.42	59.02
1967	5.94	36.84	1975	8.29	61.08
1968	6.23	41.37	1976	8.87	57.77
1969	6.59	46.77	1977	9.19	54.72
1970	7.00	52.43	1978	9.54	49.08
1971	7.20	57.77	1979	9.87	50.83
1972	7.81	59.22	1980	10.20	58.22

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UNCLASSIFIED**Response to Question 4.****Overview of the Siberia-to-Europe Natural Gas Pipeline**

The 3,000-mile Siberia-to-Europe natural gas pipeline is an enormous undertaking that promises substantial economic and political gains for the Soviet Union. The trunkline, costing at least \$22 billion, is the first of two gas lines through which the Soviets plan to deliver 3.9 billion cubic feet per day to Western Europe by the late 1980s, a volume worth \$6 billion annually in much needed hard currency. After credits are paid off beyond 1990, Soviet earnings from the deal will reach at least \$8 billion.

Financing and equipment negotiations for the first pipeline are nearly completed, and the Soviet press reports construction already has begun.

- o West Germany and France have already agreed to purchase roughly half the gas to be exported through the new pipeline system. Italy, the other large prospective gas importer under the deal, may sign very soon. Much smaller gas purchase agreements with Austria, the Netherlands and Belgium probably will follow in the next few months.
- o Less-than-full gas deliveries are supposed to begin in fourth-quarter 1984 at a floor price of \$5.40 per 1,000 cubic feet.
- o Moscow has lined up all the government-backed, subsidized credits it needs for non-pipe equipment for the export pipeline. The Soviets have contracted with Western firms for approximately \$4 billion in turbines, compressors and other non-pipe equipment for the pipeline. Another \$1 billion in equipment--primarily pipe-laying machinery--may still be ordered.

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USSR: Estimated Net Receipts from Gas and Oil Sales

(Billion 1981 US \$)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Yamal pipeline ¹										
Gas sales	0	0	0	0.5	1.0	5.1	5.1	5.3	7.5	7.7
Downpayments	0	0.3	0.3	0.3	0.6	0.2	0.2	0.1	0.1	0
Repayments and interest on credits	<u>0</u>	<u>0.3</u>	<u>0.5</u>	<u>0.7</u>	<u>1.5</u>	<u>2.0</u>	<u>2.2</u>	<u>2.6</u>	<u>2.4</u>	<u>1.9</u>
Net Yamal Receipts	0	-6.0	-0.8	-0.5	-1.1	2.9	2.7	2.6	5.0	5.8
Non-Yamal Receipts from oil sales ²	11.5	10.5	9.5	9.5	9.5	7.9	5.8	3.8	1.6	0
gas ³	<u>3.4</u>	<u>3.5</u>	<u>3.7</u>	<u>3.9</u>	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>	<u>5.0</u>	<u>5.0</u>
Net earnings from oil & gas	14.9	13.4	12.4	12.4	11.4	14.4	12.5	10.4	11.6	10.8

¹ Projections are based on the USSR's building a dual-line system in two stages with the lines to begin operation in 1986 and 1989, respectively, with partial deliveries beginning in 1984.

² This assumes that the volume of oil sales remains at about 900,000 barrels a day through 1985 and then declines to zero by 1990. Oil prices are assumed to fall in 1982-83 before leveling off for the rest of the decade.

³ Natural gas exports from existing lines rise from 2.3 billion cubic feet a day in 1981 to 2.4 billion cubic feet a day in 1983 and remain at this level through 1990. The real price of gas (currently undervalued in relation to oil) is assumed to increase 25 percent during the decade.

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UNCLASSIFIED**Response to Question 5.**

Western technology, in general, has contributed to the increased performance and sophistication of many Soviet weapons and to the countermeasures capabilities that the Soviets have developed against Western weapons. Many of these capabilities have been achieved much more quickly and cheaply than if they had had to rely solely on their own technology. Moreover, we now believe that Soviet military advancements depend on Western technology to a far greater degree than had previously been assumed.

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